



# Commercial TRENDS Boston

2<sup>ND</sup> HALF - 2000 ISSUE 3

DEPARTMENT OF NEIGHBORHOOD DEVELOPMENT • RESEARCH & DEVELOPMENT UNIT • CITY OF BOSTON • THOMAS M. MENINO, MAYOR

## Main Streets Districts Lease Rates Rise

Competition remains strong for Main Streets District commercial space, indicated by rising retail and office lease rate ranges. Our second annual survey of Main Street managers provides lease rates as of February 2001 for businesses entering these districts and, where available, provides comparisons to lease rates one year ago.

### Boston Main Streets Districts Retail Lease Trends

District	Retail Leases* /s.f.	
	February 2000	February 2001
Allston Village	\$18	\$18 to \$24
Bowdoin/Geneva	\$7 to \$12	\$12
Brighton	\$8 to \$17	\$20 to \$25
Chinatown	N.A.	\$18 to \$25
Dudley Square	\$15 to \$25	\$16.75 to \$25
East Boston	\$15 to \$25	\$20 to \$25
Four Corners	\$5 to \$15	\$10 to \$14
Grove Hall	\$9 to \$16	\$20 to \$24
Hyde Park	N.A.	\$18
Hyde/Jackson Sq	\$15 to \$18	\$18 to \$20
Mission Hill	\$15 to \$25	\$19 to \$23
Roslindale Village	\$12 to \$15	\$15 to \$18
South Boston	N.A.	\$18 to \$37
St. Mark's	\$12 to \$17	\$15 to \$20
Upham's Corner	\$8 to \$15	\$17.50
Washington Gateway	\$16 to \$27	\$25 to \$33

\* Retail rates are triple-net, meaning the merchant is responsible for all operating, tax, & maintenance expenses. Further, retailers typically pay for all build-out costs.

Source: Main Streets Program Managers

### Boston Main Streets Districts - Office Lease\* Trends

District	Office Leases	
	February 2000	February 2001
Allston Village	N.A.	\$19
Brighton	\$16	\$15 to \$20
Dudley Square	N.A.	\$25 to \$32
East Boston	\$9 to \$13	\$10 to \$15
Grove Hall	\$7 to \$12	\$22
South Boston	N.A.	\$15 to \$18
St. Mark's	N.A.	\$12 - \$20
Upham's Corner	N.A.	\$8.80 to \$9.25
Washington Gateway	N.A.	\$18 to \$27

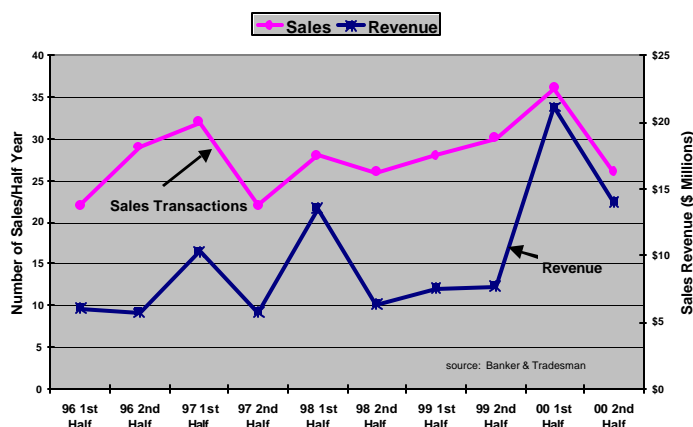
\* Office lease rates are typically gross, meaning that landlords include in the asking price both build-out and utility expenses.

Source: Main Streets Program Managers

## Brisk Main Streets Districts Commercial Building Sales

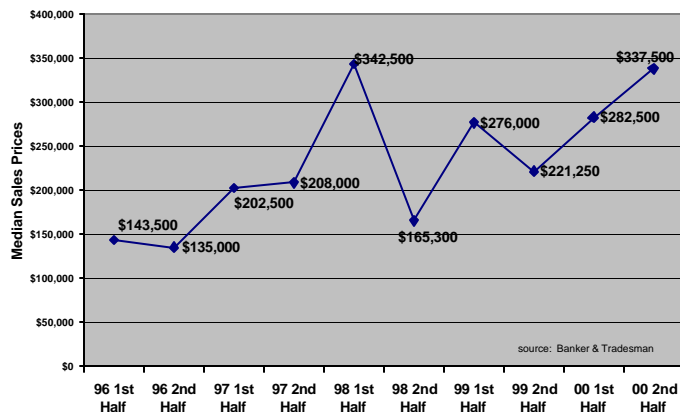
Buildings in the Main Streets Districts continue to change hands, although the number of building sales declined from the first half of 2000 (36 to 23). The total sales value of MS building is \$13 million in the second half of 2000.

Main Streets Districts Commercial Building Sales



The median sales price for the second half of 2000 (\$337,500) is up \$116,250 from the median price a year ago.

Median Sales Prices Main Streets Commercial Building Sales



## Send Us Your Data

The R&D Unit is interested in your rental data. Help us stay current. Our goal is to include all Boston Main Streets and commercial districts. We'd like to narrow the ranges presented here so businesses have the most accurate rent information. Call Keith Kuzmin at 635-0340 or send a fax: 635-0262 or email: [kkuzmin.dnd@ci.boston.ma.us](mailto:kkuzmin.dnd@ci.boston.ma.us)



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## Setting Up Shop in the Main Streets

Quality retail and office space is available in many of Boston's Main Streets Districts. The combination of increasing income levels and populous neighborhoods results in tremendous spending power and opportunities for a variety of businesses.

### Leasing Main Streets Commercial Space Today

District	Type	Current Est. Lease Rate	Current Vacancy	Contact Boston Main Streets Manager	Phone & Email
Grove Hall	Retail Office	\$22/s.f. \$22/s.f.	4,000 s.f. 10,000 s.f.	Lorraine Grubbs-Smith	617-445-1236 Lgrubbsmith@aol.com
St. Mark's	Retail Office	\$16/s.f. \$16/s.f.	5,000 s.f. N.A.	Dan Larner	617-825-3846 Smams@netzero.net
South Boston	Retail Office	\$18- \$20/s.f. \$15-\$18	7,000 s.f. N.A.	Linda Doran	617-268-9600 Southbostonsbms@aol.com
Washington Gateway	Retail Office	\$25 \$25	3,000 0	Sheila Grove	617-542-1234 Wgmainst@quik.com
Brighton	Retail Office	\$20 to \$25 \$15 to \$20	4,000 N.A.	Rosie Hanlon	617-779-9200 Agriffen@brightonmainstreets.org
Upham's Corner	Retail Office	\$17.50 \$8.8 to \$9.25	34,079 104,000	Bob Haas	617-265-0363 Ucmainst@earthlink.net
Roslindale Village	Retail	\$15 to \$18	13,000	Janice Williams	617-327-4065 jwilliams@rosindale.net
Allston Village	Retail Office	\$20 to \$30 \$18 to \$24	15,000 5,000	Jennifer Rose	617-254-7564 Avmainst@allstonvillage.com
Dudley Sq.	Retail Office	\$17 to \$25 \$25 to \$25	4,650 125,715	Joyce Stanley	617-541-4644
Mission Hill	Retail	\$19 to \$23	N.A.	Maggie Cohn	617-427-7399 mhmainstreets@usa.net
East Boston	Retail Office	\$20 to \$25 \$10 to \$15	4,000 0	Maria Nigro	617-561-1044 Ebmainstreets@aol.com

Source: Main Streets Program Managers



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## Downtown - Demand Continues

Demand for downtown office space provides a good indicator for evaluating the overall business climate. Showing some signs of a weakening economy, the real estate industry expects the downtown office space vacancy rate to tick up during the coming year. Nevertheless, leasing demand will remain steady. At the January 24 Meredith & Grew Inc. annual seminar, company representatives stated their expectations that the Boston market would continue to absorb between 750,000 square feet to 1 million square feet per year. At this rate, they noted the vacancy rate would remain somewhere in the range of 3% to 7%, low enough to produce annual rental increases from 3% to 5%. During the seminar, Meredith & Grew also reported rental averages for year 2000, depicted in the table below.

### Metro-Area Class A Office Space Rental Averages for Year 2000

<b>Boston (overall)</b> .....	\$50
Financial District .....	\$65
Back Bay .....	\$65
South Boston Waterfront .....	\$50
South Station .....	\$45
Fenway/Kenmore .....	\$40
North Station .....	\$40
Charlestown .....	\$40
<b>Cambridge (Class A office)</b>	
Kendall Square .....	\$60-\$70
Alewife .....	\$48-\$55
Biotech space (triple net lease) .....	\$40-\$50
<b>Suburban</b>	
Tier I Class A .....	\$55-\$70

Source: Meredith & Grew Inc.

Published: Boston Business Journal (2/2-8/01)

## Signs of Decline

As the stock market churns and the economy softens, supply and vacancy rates are increasing from unexpected sources. Take the once overheated high-tech industry. Flush with cash and pumped up with lofty expectations, many high-tech firms secured long-term leases for more space than their immediate requirements on the belief that future expansion would absorb the extra square footage. Now, with many business plans tossed in the dot.compost heap, companies are returning unused space to the overall supply. The table below details a

sampling of leased areas and the square footage being placed back on the market for some metro-area companies.

### Subleases Available

Company	Total SF	SF Given Back
CMGI	1 Million	200,000
Streamline.com	145,000	145,000
Cambridge Technology Partners	170,000	70,000
Shoplinc	50,000	50,000
Toysmart.com	50,000	50,000
IXL	45,000	45,000
Breakaway Solutions	100,000	100,000
Furniture.com	40,000	40,000
MarchFIRST	120,000	80,000 - 120,000
MotherNature.com	40,000	40,000
Open Market	120,000	40,000
Ziplink	40,000	40,000
Sapient	150,000	0
<b>Total</b>	<b>2 million +</b>	<b>900,000 +</b>

Source: Meredith & Grew, Inc.

Published: Boston Business Journal (2/2-8/01)

Likewise, a half year ago, a new demand source for commercial leasing sensationalized the real estate market. Telecom hotels suddenly appeared as new demand drivers. These so-called "hotels" were never intended for people, however. Instead, they were designed as giant switching stations, housing the extraordinary technical gadgetry necessary to separate data being sent over the massive fiber optic system to and from individual client systems. Because the "last hundred yards" between the delivery system and the user has always been recognized as the critical portion of an Internet system, many Internet dependent companies sought locations close to these switching stations. Capitalizing on the trend, TrizecHahn Corp. out of Toronto has been developing Boston Internet City at 200 Innerbelt Road in Brighton. Its best laid plans went somewhat awry, however, when Globix Corp, a New York-based Internet service provider pulled out of a leasing commitment for 450,000 square feet in this development. Once again, supply has increased from an unexpected source.

Most of the companies that have stockpiled rental space are outside of Boston's boundaries, the impact of increased vacancies still ripples across the larger metropolitan real estate market. Likewise, until many tech companies complete their current version of "Survivor", demand for technology friendly infrastructure loses favor. In our inter-connected economy and real estate market, chain reactions are triggered quickly with unanticipated results.



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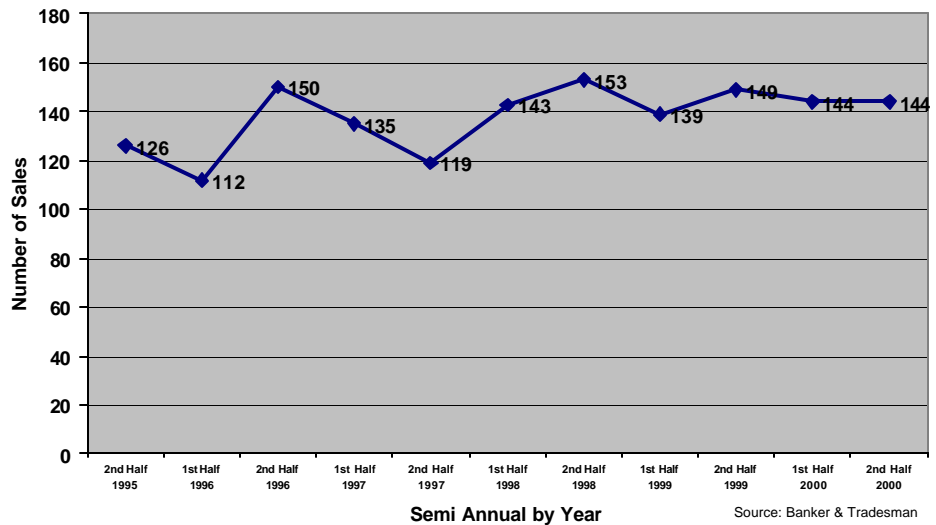
## Boston Commercial Sales Remain Steady

Boston's commercial buildings continue to change hands at a brisk pace. Despite signs of a slowdown, the economy remains robust when compared to most historical measures. Building owners appear confident that lease rates will rise moderately, feeding demand for building acquisitions. This table indicates all Boston sales transactions, both downtown and in the neighborhoods. Individual neighborhood data is found on page 8.

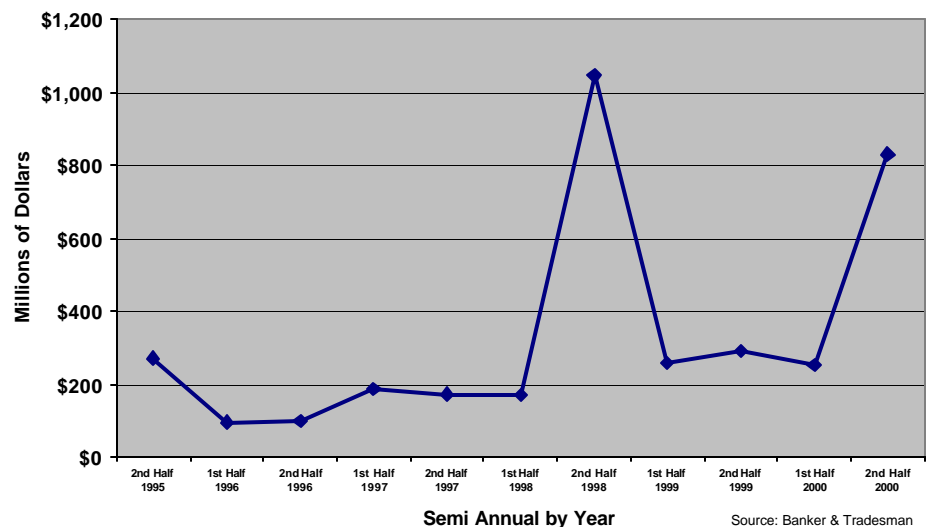
## Sales Value Spikes Up

Overall commercial sales value increased during the second half of 2000. It is important to note, however, that dramatic spikes such as that depicted in the next figure are more a statistical anomaly resulting from limited data. While the value of Boston's commercial sales increased approximately \$600 million compared to the first half of the year, 8% of transactions (12) accounted for 84% of the total sales value (\$830.9 million).

Commercial Building Sales  
(July 1995 to Dec 2000)



Commercial Building Sales Value  
(July 1995 to Dec 2000)





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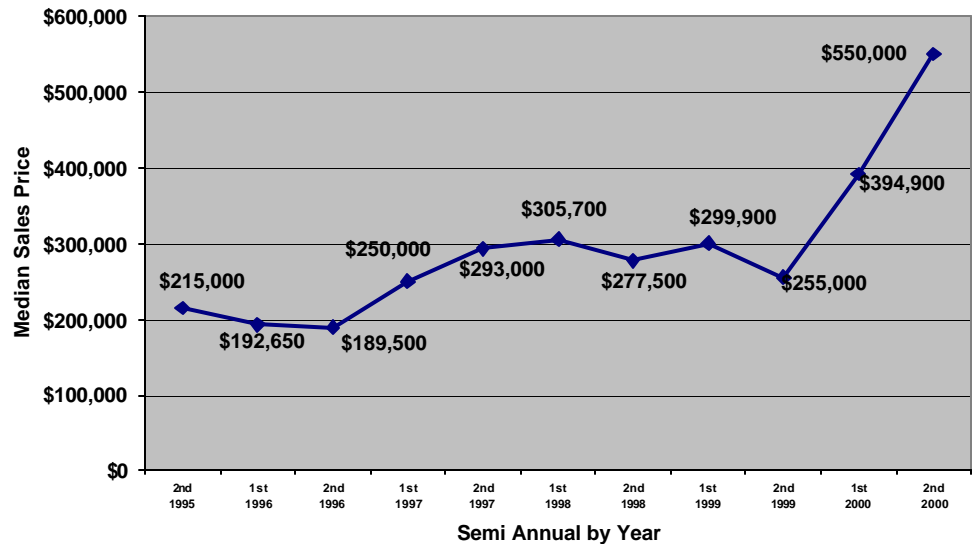


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Median sales prices (see chart below) eliminate dramatic highs and lows. Nevertheless, the 2nd half 2000 commercial building median sales price (\$550,000) jumped considerably, showing an increase of \$155,100 more than the 1<sup>st</sup> half median sales price (\$394,900).

**Median Sales Price - Commercial Building Sales**  
July 1995 to Dec. 2000

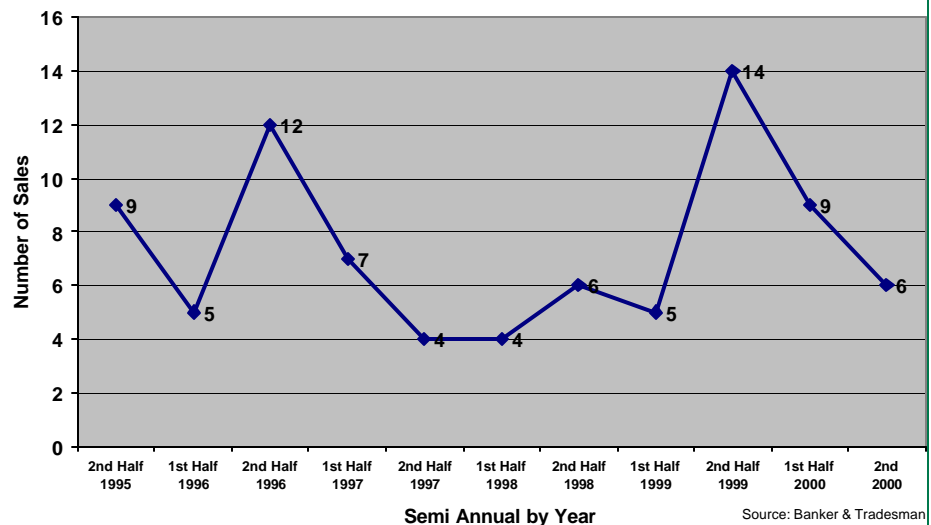


Source: Banker & Tradesman

## Vacant Land Sales

The 6 vacant commercial land sales occurring during the last six months of 2000 sum to 32,915 square feet and a value of \$1.4 million. Sales occurred in South Boston, Roxbury, Fenway/Kenmore, and Hyde Park. The average price per square foot is \$41.45. The property at 187 Magazine Street in Roxbury sold for the highest price during the last two quarters of 2000, fetching \$950,000.

**Vacant Land Sales**  
(July 1995 to Dec 2000)



Source: Banker & Tradesman



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## Downtown Downturn?

Back in December, downtown real estate professionals were predicting a mild demand decrease as year 2001 evolves. At the December 6, 2000 forum, "Changing Times...How Long Will the Commonwealth Stay Strong", sponsored by the National Association of Industrial and Office Properties, representatives from the biggest downtown real estate firms reported what they saw when they read the tea leaves.

At the time of the conference, industry experts agreed that the real estate industry will maintain exceptionally low vacancy rates and net available space absorption will slow but still be better than 5 or 10 year averages. The worst prediction made by a forum panelist is an 11% office space vacancy. Most suggest the worst case is in the 5% to 7% vacancy range. All agree that by definition a very healthy real estate market is one with less than 10% vacancy.

Panelists also agreed that a recession was unlikely. Most were convinced that even if a recession should occur, fundamentals are so different than 1989-92 that its impact would be vastly less negative. One speaker claimed, "A recession in the next year or two would be like a bad nor'easter, compared to the 89-92 recession which was the perfect storm." Nevertheless, signs of a slowdown were reported. At the time of this forum, real estate companies were seeing 8 bids to lease available properties, down from 15 bids earlier in the year. Additionally, signing bonuses where prospective tenants tossed in extra dollars to win the lease, were considered a thing of the past.

Participants reported that the fundamental strengths of Boston economy and real estate include:

- (1) diverse types of businesses (dot.coms account for only 5% of real estate),
- (2) much stronger credit checks applied over past few years and years to come of businesses seeking leases resulting in stronger companies holding stronger leases,
- (3) little speculative building characterized by near supply/demand equilibrium and substantial pre-leasing before construction completed,
- (4) more than adequate capital with investors flocking to Boston, and
- (5) significant concentration of intellectual capital in Boston and surrounding area.

Panelists also acknowledged there were threats to the Boston economy and real estate market, including:

- (1) local economic growth NOT slowing, thereby outstripping labor pool supply (labor scarcity universally seen as major regional threat),
- (2) continued high-tech market correction,
- (3) permitting obstacles (Fan Pier cited),
- (4) significant construction cost increases,
- (5) significant energy cost increases (although many argue we already have absorbed increases),
- (6) and national economic expansion continuing too fast producing excess capital applied to poorly conceived projects.

Also reported at the forum:

- ✍ Boston currently has an office space supply of 80 million square feet with 3.1% vacancy. In 2001, the city will add 6 million square feet and the vacancy rate will rise to 5.2% (Meredith and Grew).
- ✍ Boston's average office space rate is \$53.95/sf, making it third highest in country. This year, the city will absorb 2.2 million square feet, double the annual average for the past five years. (Richard Ellis/Whittier Partners).
- ✍ A wave of space reclamation and renovation will occur over the next two years, adding 1.9 million additional square feet. Active areas are Causeway Street, 470 Atlantic Ave, and the Boston waterfront.



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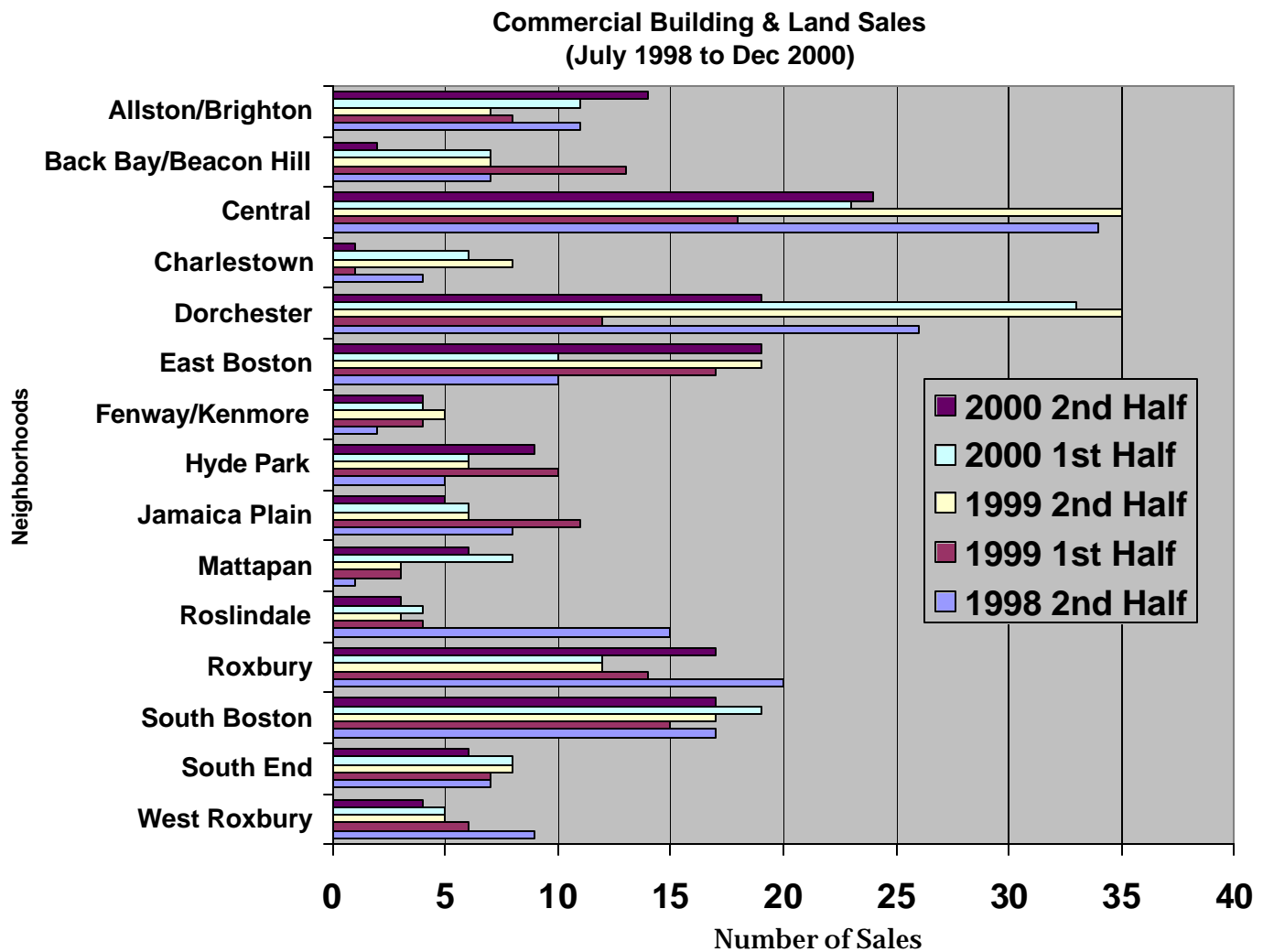


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## Neighborhood Land and Building Sales

Commercial sales of both buildings and land remain brisk in the neighborhoods during the past four six-month periods. Central Boston and Dorchester continue to be the neighborhood leaders in Commercial Sales Volume.



Source: Banker & Tradesman





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## Neighborhood Sales Trends

Neighborhood commercial sales remained robust through the end of year 2000. However, warning signs are becoming more prevalent. The Mass Insight Corporation is reporting that its New England Economic Project Consumer Confidence Index for Massachusetts has plummeted this quarter—dropping 29 points from 130 to 101. MIC notes that the last time consumer confidence in Massachusetts fell below 100 was in July 1996. Thus, with consumer confidence sagging and the business outlook less optimistic, will the second half of last year mark the end of the real estate bull market?

Our “Neighborhood Roundup” highlights commercial building sales in the neighborhoods. The commercial buildings reported below include offices, retailing, manufacturing, service operations, and eating and drinking establishments.

## Neighborhood Roundup

### Allston/Brighton

	99 1st Half	99 2nd Half	00 1st Half	00 2nd Half
Median Price	\$925,000	\$535,000	\$1,064,500	\$831,383
Highest	\$4,250,000	\$1,050,000	\$3,800,000	\$1,600,000
Total Revenue	\$10,304,500	\$4,067,796	\$12,615,750	\$11,887,574
Total Sales	8	7	9	14

### Charlestown

	99 1st Half	99 2nd Half	00 1st Half	00 2nd Half
Median Price	—	\$232,500	\$505,000	—
Highest	—	\$450,000	\$3,750,000	—
Total Revenue	\$140,000	\$980,000	\$5,775,000	\$140,000
Total Sales	1	4	6	1

### Dorchester

	99 1st Half	99 2nd Half	00 1st Half	00 2nd Half
Median Price	\$205,400	\$250,000	236,383	\$600,000
Highest	\$600,000	\$1,076,000	825,000	\$76,945,328
Total Revenue	\$2,706,100	\$9,729,766	8,341,383	\$110,559,600
Total Sales	12	27	29	19

### East Boston

	99 1st Half	99 2nd Half	00 1st Half	00 2nd Half
Median Price	\$128,000	\$216,702	\$315,000	\$175,000
Highest	\$5,200,000	\$800,000	\$525,000	\$1,525,000
Total Revenue	\$8,051,500	\$4,713,602	\$3,128,000	\$5,655,555
Total Sales	17	19	10	19

### Hyde Park

	99 1st Half	99 2nd Half	00 1st Half	00 2nd Half
Median Price	\$210,000	\$176,942	\$300,000	\$470,000
Highest	\$430,000	\$1,389,263	\$1,300,000	\$8,160,000
Total Revenue	\$1,252,041	\$2,220,150	\$3,100,000	\$11,640,000
Total Sales	6	6	6	8

### Jamaica Plain

	99 1st Half	99 2nd Half	00 1st Half	00 2nd Half
Median Price	\$277,000	\$262,500	\$795,000	\$525,000
Highest	\$495,000	\$355,000	\$4,500,000	\$1,042,373
Total Revenue	\$3,119,900	\$1,066,012	\$8,080,000	\$2,914,373
Total Sales	11	4	6	5

### Mattapan

	99 1st Half	99 2nd Half	00 1st Half	00 2nd Half
Median Price	\$102,000	—	\$234,500	\$427,500
Highest	\$490,000	—	\$400,000	\$1,532,901
Total Revenue	\$685,500	\$230,000	\$1,069,000	\$3,241,901
Total Sales	3	1	4	6

### Roslindale

	99 1st Half	99 2nd Half	00 1st Half	00 2nd Half
Median Price	\$151,500	\$260,000	\$252,500	\$313,800
Highest	\$185,000	\$825,000	\$375,000	\$380,000
Total Revenue	\$503,000	\$1,177,000	\$960,000	\$868,800
Total Sales	4	3	4	3

### Roxbury

	99 1st Half	99 2nd Half	00 1st Half	00 2nd Half
Median Price	\$185,000	\$125,000	\$303,500	\$262,500
Highest	\$7,406,614	\$340,000	\$1,100,000	\$1,800,000
Total Revenue	\$18,087,146	\$1,356,313	\$4,164,500	\$6,411,000
Total Sales	17	8	10	14

### South Boston

	99 1st Half	99 2nd Half	00 1st Half	00 2nd Half
Median Price	\$270,000	\$210,000	\$425,000	\$415,000
Highest	\$875,000	\$24,300,000	\$72,000,000	\$1,900,000
Total Revenue	\$3,867,500	\$43,346,000	\$79,454,750	\$10,437,256
Total Sales	13	15	15	16

### West Roxbury

	99 1st Half	99 2nd Half	00 1st Half	00 2nd Half
Median Price	\$305,000	\$145,000	\$650,000	\$840,693
Highest	\$3,625,000	\$496,500	\$1,350,000	\$1,125,000
Total Revenue	\$5,305,000	\$726,500	\$2,953,000	\$3,006,386
Total Sales	6	3	5	4

### TOTALS

	99 1st Half	99 2nd Half	00 1st Half	00 2nd Half
Total Revenue	\$54,022,187	\$69,613,139	\$129,641,383	\$166,762,445
Total Sales	98	97	104	109

Source: Banker & Tradesman